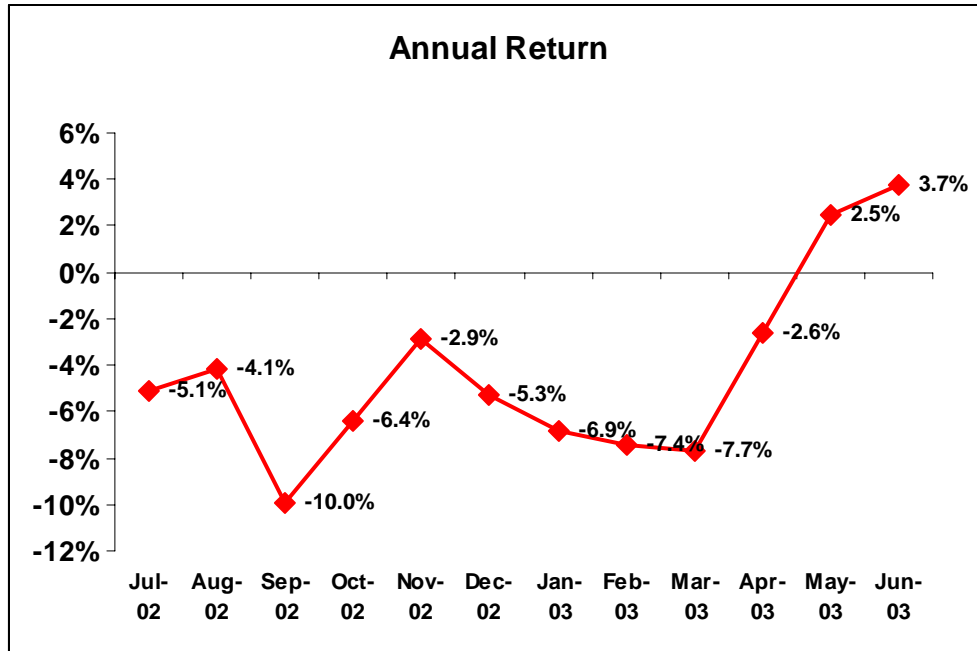


REPORT ON INVESTMENT ACTIVITY

Prepared by Robert M. Maynard, Chief Investment Officer

After an exciting year, and with a closing rush, PERSI ended the year up slightly at 3.7%, and \$6.545 billion. A slightly boring result which, after the pain of the worst stock market in over three generations, feels much better than it normally would.

It certainly was not, however, an easy year. In fact, it was a roller coaster:



Still, from a low of -10% at the end of last September (actually, in mid-October PERSI hit a low of -13%), there has been a couple of significant recoveries, one ending in December, and the final post-war rally of this spring and early summer.

The joy of the recent market rise is both muted and relative. Even after the continued rise through the end of October, 2003, we are only about even with our highs of the bull market. Nonetheless, the recent rise has given some relief. And, over the past year, there have been some significant pockets of excellent performance, both relatively and absolutely.

We had good absolute and relative performance in fixed income, global equities, real estate, and emerging markets. We had poor absolute but good relative returns for international equities, and poor absolute and relative performance in US equities.

The fixed income performance, in particular, was spectacular. Overall, PERSI fixed income was up 13.0% for the fiscal year, beating the general bond market (the Lehman Aggregate) return of 10.5%. Here the driving force was the TIPS portfolio with 16.9% returns, the Gov/Corp Index portfolio with 13.2% returns (in line with its benchmark), and the Idaho Mortgage Program with 13.1% returns. The Mortgage portion of the fixed income market generally underperformed the broader market, with 6.1% returns for the index, with Clearwater matching the index for its period of funding, and with DBF outpacing the index by 1% with 7.2% returns. Barings fixed income, with 10.5% returns, was in line with the general index returns.

PERSI's global equity also had a good year, with overall returns of 3.3% outpacing the world index return of -1.9%. Zesiger's public portfolio had a truly spectacular period, with returns of 24.3% -- private equity losses during the year pulled the returns down to a merely stunning 14.8%, still making the account the best performing PERSI account for the year. Cap Guardian and Brandes also had positive years with returns of 2.2% and 1.1% respectively. Barings' return of -1.0% beat the world index, while Deutsche Bank (Scudder) trailed with returns of -6.5%.

International equity returns were about what were to be expected given the markets. Overall, PERSI international equities lost 5.1% vs MSCI EAFE's loss of -6.3%. Emerging markets equity generally was up 6.5%, and Genesis outpaced the indices with returns of 11.7%, while Schroders Emerging Markets underperformed at 4.6%. PERSI's international index fund lost 5.8%, TCW was down 5.9%, and both Rowe Price and Schroders lagged with -6.8% and -10.3%, respectively.

All US non-index accounts underperformed with the exception of real estate. The Russell 3000 was up 0.9% for the fiscal year – however, PERSI's US equity component lost -0.5%. All of the active managers underperformed, with Tukman losing 2.3%, MFS losing 0.9%, and Mountain Pacific losing 5.4%. Private equity, on a time-weighted basis, lost 12.8%. Real estate was the sole bright spot, with the Lend Lease REIT account gaining 6.4% and the Prudential account gaining 10%.

All in all, however, PERSI had a good relative year, outperforming its benchmark by 1.0% cumulatively. After lagging peers during the downturn, the last quarter should pull PERSI back to around a median relative return for the short and long term when compared with other public funds, generally.

The past years have been driven by PERSI's basic investment structure. To briefly review that structure: PERSI's basic commitment is to 70% equities and 30% fixed income. Within equities, around 50% is in US equities and 20% is in international equities, with the exact amounts depending upon the actions of PERSI's global managers.

Our basic approach is to primarily index the core assets in the large efficient markets, and then “play hard around the edges,” with clear, transparent active manager strategies or clear portfolio strategies that could significantly improve PERSI's portfolio characteristics, asset/liability matching, add to return, or advance other (such as local) interests.

The core indexing approach is achieved through the Mellon Capital Management (MCM) Russell 3000 and EAFE index funds, the State Street Global Advisors (SSGA) Gov/Corp fund, and the DBF Mortgage Backed Securities (MBS) portfolios. About 35% of PERSI's total assets are index-type strategies.

A little over half of PERSI assets are in transparent active manager or strategic approaches: namely,

- Concentrated (15-50 stock) portfolios by Tukman, Mountain Pacific, TCW, and the REIT portfolio by Lend Lease (14% of PERSI assets)
- The TIPS bond portfolio (improve portfolio characteristics) (11% of PERSI assets)
- Global managers (addresses the time horizon problem in asset/liability matching) (19% of PERSI assets)
- Emerging markets (improve diversification and add to long-term return) (3% of PERSI assets)
- Idaho Mortgages (advance local interests and add to return) (6% of PERSI assets)

Around this basic approach, PERSI then has added some supplementary strategies which, if successful, can be expanded. For example, a number of years ago the global equity strategy was a peripheral strategy which has been expanded as the success of the approach has been proven. Current “early stage” strategies are private equity and private real estate, and a cash enhancement strategy by Clearwater for PERSI's residual cash and a small MBS portfolio (rolling TBA's). As “early stage” approaches would indicate, only about 5% of PERSI assets are in these areas.

The remaining 7% of PERSI assets are with more traditional equity managers, two developed market international managers (Rowe Price and Schroders), and an all cap US equity manager (MFS). In addition, one formerly supplemental strategy, currency hedging through Pareto Partners, has added to return. Collectively, all of these strategies have produced an overall posture compared to the markets that does not have any structural bias toward capitalization or styles (growth or value). The characteristics of the US and international equity holdings, overall, closely match the characteristics of the general markets – as do the overall bond holdings, once the TIPS and Idaho Mortgage portfolios are removed.

The past three years have been a very good “stress test” for the PERSI portfolio. The current environment, and the recent three years, probably represents the worst market environment for the underlying PERSI structure – particularly compared to PERSI peers. PERSI has relatively more equity, more indexing, and more international exposure than most funds. Given the huge differential between bond and stock returns over the past three years (stocks losing 40%, bonds gaining 35%), the underperformance of international equities over the past 5-10 years (10% difference over the past 5 years), and, as expected, the underperformance of index funds to active managers in a down market (the Russell 3000 is a 70th percentile manager over the past three to five years), it would normally be expected that PERSI would be near the bottom of peer universes. And, in fact, if PERSI had generated market returns for its segments over the past three to five years, it would have ranked in the bottom 5% of its peers or in a universe of balanced funds.

Instead, we were median to third quartile performer – slightly below the middle of the pack. And, the market rise continuing through September 30, 2003 has brought PERSI back well into median or better performance. For the period ending September 30, 2003, we rank as follows in the Russell/Mellon Public Fund Universe and the Callan Public Fund Universe (1 highest, 100 lowest, 31 to 46 funds in data base depending on period):

	QTR	1 YR	2 YR	3 YR	5YR	7YR	10YR
Russell/Mellon	21	30	43	63	41	42	49
Callan	5	13	34	77	35	32	36

Over this period, PERSI has significantly outperformed “the market,” adding over 15% (about a billion dollars) to PERSI returns in just 4 years. This is actually quite good relative performance and bodes well for the future. It is likely that over the next five years, equity markets will rebound, bond markets may see at least a partial collapse, and international equity will stabilize and perhaps outperform US equities. If so, then the strong headwinds that we have faced will likely propel us back to the “head of the pack” in terms of peer comparisons, and “normal” returns (mid to high single digit) overall (not necessarily in the next year, but over the upcoming five).

In reviewing the past year and longer, there have been some clear successes: TIPS, global equities, Idaho Mortgages, and REITS have been consistent return enhancers and, more recently, emerging markets have begun showing the outperformance expected over the long term for this area. The returns in these areas have been strong, consistent, and have driven PERSI's overall outperformance.

The TIPS program, in particular, has been a return “home-run,” adding almost 1% to total fund returns over the past 4 years. It was not meant to be one, and its continued use is solely for purposes of diversification benefits. It is the one asset that will surely rise if unexpected inflation takes off, and it allows a greater equity exposure in the portfolio with lower amounts of risk. In fact, we should expect the TIPS portion of the bond portfolio to underperform – we are giving up around a 25 basis point inflation premium in addition to the corporate yield spread which, over time, should lead to underperformance. The benefits to the overall portfolio (diversification and allowing higher equity exposures to make up the return loss with lower risk) still outweigh this expected underperformance.

Global management has proved to be a success, even in the face of generally terrible international markets. Our global managers collectively rank in the top quartile of the global manager universe, they fit well together, and they have produced returns substantially in excess of both US and international market returns.

Similarly, the Idaho Mortgage program has also added to return, although its continued outperformance is more problematic (due to a deteriorating Idaho economy and the pricing being linked directly to US Treasuries). Nonetheless, it does add to returns available from traditional MBS portfolios (we do get a private holding bonus), it is well-structured, and provides an important local component to our program.

Outside of the global equity managers and real estate, active management did not have a good year for PERSI – a disappointing result given the hope that active management should outperform when markets are flat to declining. Over the longer term, again outside of global equity managers, the results are also collectively uninspiring – after fees the collective returns against indices are about a “wash.” With global equity and real estate, however, overall active management has

added about 3.4% cumulatively before fees over the past 5 years. After fees the return enhancement has been around 2%, cumulatively.

Currency hedging has added around 50 basis points of extra return to the total fund over the past five years, but more recently has begun losing money as dollar weakness has become the trend. The experimental Cash Enhancement strategy, through the Clearwater TBA and cash portfolios, have also added to our returns, although the program is still in its very early stages.

Private Equity has not yet given the returns expected from this asset type. While for many time periods it has beaten its alternative – small cap US equities -- that has been due to the vagaries of performance measurement of illiquid securities rather than superior investment opportunities. Nonetheless – the infrastructure is in place, it is an asset type that requires a long-term commitment, and our program is still in the “J” curve phase – where losers become apparent early and winners take longer to develop, not to mention our exposure to the 1999 and 2000 “vintage years,” which have been terrible years for private equity.

Overall, though, the past ten years have shown that the basic PERSI structure and investment approach works. It does form the basis for general conclusions about our investment and funding structure and its appropriateness for the longer term.

As the saying goes, “you can drown in a river that is, on average, one foot deep.” The past ten years have seen “average” markets, with US equity returns in the 9.5% - 10% range (geometric), bond returns of 7% - 7.5%, and with overall fund returns of 8.3% before fees, and 8% after fees.

The annual markets, however, have been like annual weather – always individually unusual. The path to those average returns has been volatile – tepid returns in the early 90's, spectacular returns in the late 90's, followed by an equally spectacular equity collapse over the past three years, and a stunning bond market advance. International equities have had sup-par performance over the past ten years.

And, as always, the prospects for the markets are uncertain. While the next ten years are also likely to be “average”, the path may be like the past decade – anything but smooth or consistent. The bond market appears overvalued, and the equity market appears adequately valued, at least in the US economic prospects, particularly in Europe, appear constrained.

Thus, the question for the next ten years, as it turned out for the last ten, is whether the PERSI structure can handle the volatility – can it absorb extreme bad times as well as good? Many systems have shown that they cannot – and are beginning to crack under the stress of over-generous benefit enhancements or unsustainable contribution holidays granted when times were overly good, or investment programs that produced volatile and excessive losses when markets reversed.

PERSI, however, has shown very little, if any, strain. The constituency, including not only the retirees and active members, but also the Legislature and public, has handled moderate investment losses with equanimity – showing an investment sophistication and understanding that apparently is unusual when compared with the rest of the nation. The benefit enhancements granted in the good years were moderate, and the provision for a substantial investment reserve allowed PERSI to handle the downturn with only minor changes to the contribution system (simply taking back, over a graduated period, the reductions granted only a few years before). The investment program itself, after showing in the good years that it could keep up with hot markets, moderated the losses by outperforming in each of the asset classes and types over the three-year downturn.

Thus, in a period when all around investment programs and public pension systems are garnering headlines with problems and cries for change, what is extremely encouraging about PERSI is the lack of any problems or outcries – what is significant, as Sherlock Holmes said, is the “dog that didn’t bark.”

 Investment Section 

For the numbers presented, the source of the above-disclosed data is the Mellon Trust Services Reporting System, which follows AIMR's Performance Presentation Standards.

Investment Summary for the Year Ended June 30, 2003

<u>Types of Investment</u>	<u>Market Value</u>	<u>Percent of Total Market Value</u>
Short-term Investments	\$ 222,250,094	3.4%
Fixed Income		
Domestic Bonds	1,466,588,018	22.4%
International Bonds	75,515,642	1.2%
Mortgages	<u>298,552,298</u>	<u>4.6%</u>
Total Fixed Income	1,840,655,958	28.2%
Common Stock		
Domestic Equity	2,839,971,839	43.4%
International Equity	<u>1,467,728,583</u>	<u>22.4%</u>
Total Common Stock	4,307,700,422	65.8%
Private Equity	137,030,704	2.1%
Real Estate	<u>33,523,520</u>	<u>0.5%</u>
Total Base Plan Investments	<u>\$ 6,541,160,698</u>	<u>100.0%</u>
Other Funds:		
Sick Leave Insurance Reserve	139,002,638	
Mutual Fund Holdings in Choice Plan	<u>103,477,653</u>	
Total Investments in All Funds	<u>\$ 6,783,640,989</u>	

Schedule of Investments by Account (including interest and dividends receivable) as of June 30, 2003

Apollo Management, LP	\$4,906,247
Baring Asset Management, Inc.(Equity)	185,520,954
Baring Asset Management, Inc.(Fixed Income)	241,148,084
Brandes Investment Partners, LP	295,840,890
Capital Guardian	190,092,728
Cash in Short-Term Investment Pool	6,228,640
Chisholm Management IV, LP	17,332,816
Clearwater Advisors, LLC	67,172,291
D.B. Fitzpatrick & Co., Inc. - Idaho Mortgages	303,723,358
D.B. Fitzpatrick & Co., Inc. (Fixed Income)	173,953,758
Deutsche Bank	188,306,729
Furman Selz Investments	11,334,696
Galen Associates	24,238,903
Genesis Asset Managers, Ltd.	102,325,437
Goense Bounds & Partners, LP	3,768,410
Harvest Partners, Inc.	16,982,313
Highway 12 FD Venture, LP	2,106,665
Ida-West	3,174,998
Lend Lease Rosen	188,752,398
Littlejohn, LP	4,765,759
McCown DeLeeuw & Co.	8,803,599
Mellon Capital Management, R2000 Small Cap	103,471,780
Mellon Capital Management, S&P 500 Large Cap	1,234,008,449
Mellon Capital Management, Mid Cap Completion	150,233,129
Mellon Capital Management, International Stock Index	304,713,950
Mellon HR Solutions (Choice Plan Mutual Fund Holdings-Alternative Funds)	23,693,433
MFS Institutional Advisors, Inc.	172,296,136
Mountain Pacific Investment Advisors, Inc.	257,381,772
Oaktree Capital Management	6,501,625
Pareto Partners	(1,552,386)
Providence Equity Partners, LLP	18,189,350
Prudential Investments	33,937,229
Rowe Price International, Inc.	179,981,295
Saugatuck Capital Company	937,595
Schroder Capital Management International, Inc. (EAFE)	164,898,507
Schroder Capital Management International, Inc. (Emerging Markets)	84,948,393
State Street Global Advisors	455,384,561
State Street Global Advisors (TIPS)	651,342,283
State Street Global Advisors (Sick Leave Insurance Reserve)	139,002,638
T3 Partners, LP	10,872,587
TCW London International, Ltd.	179,889,031
Thomas Lee, LP	11,742,806
Tukman Capital Management, Inc.	245,736,069
Zesiger Capital Group	218,385,794
Zesiger Capital Group (Private Equity)	21,044,478
Total Market Value, Including Investment Receivables and Payables	\$6,707,520,177
Add: Investments Purchased	528,243,843
Less: Investments Sold	(423,823,952)
Less: Interest and Dividends Receivable	(28,299,079)
Total Market Value, Net of Investment Receivables and Payables	<u>\$6,783,640,989</u>

Investment Results (Base Plan Only)

MANAGERS	TOTAL	% OF	Investment Performance for Periods Ending			
	MKT VAL (MILLIONS)	FUND	FISCAL	1 YR	3 YRS *	5 YRS *
U.S. EQUITY						
MCM MID CAP	150.2	2.3%	5.2	5.2	(14.4)	(2.0)
MCM S&P 500 LC	1,234.0	18.9%	0.2	0.2	(11.1)	(1.5)
MCM R2000 SM CAP	103.5	1.6%	(1.7)	(1.7)	(2.1)	
MFS ASSET MGMT	172.3	2.6%	(0.9)	(0.9)	(14.3)	(2.5)
MOUNTAIN PACIFIC	257.4	3.9%	(5.4)	(5.4)	7.0	3.4
TUKMAN CAPITAL MGMT	245.7	3.8%	(2.3)	(2.3)	1.3	3.8
TOTAL U.S. PUBLICLY TRADED EQUITY	2,163.1	33.1%	(0.6)	(0.6)	(10.1)	(1.1)
BENCHMARK – Wilshire 5000			1.3	1.3	(10.6)	(1.3)
PRIVATE EQUITY						
SAUGATUCK	0.9	0.0%	(17.4)	(17.4)	(12.0)	(13.0)
IDA-WEST	3.2	0.0%	38.2	38.2	29.2	17.6
GALEN III	24.2	0.4%	(11.8)	(11.8)	(14.8)	(0.0)
HARVEST PARTNERS	17.0	0.2%	(22.5)	(22.5)	3.8	0.4
FURMAN SELZ	11.4	0.2%	(13.7)	(13.7)	(8.7)	(1.7)
MCCOWN DE LEEUW	8.8	0.1%	(5.8)	(5.8)	(21.2)	(13.1)
PROVIDENCE EQ PARTNERS	18.2	0.3%	(2.6)	(2.6)	(23.0)	
CHISOLM PARTNERS	17.3	0.2%	(10.7)	(10.7)	(16.6)	
LITTLEJOHN II L.P.	4.8	0.1%	(35.4)	(35.4)	(10.8)	
PERSI-OAKTREE CAP	6.5	0.1%	(1.5)	(1.5)	(10.1)	
PERSI-GOENSE BOUNDS	3.8	0.1%	(17.3)	(17.3)	(10.5)	
HWY 12 FD VENTURE LP	2.1	0.0%	(30.2)	(30.2)		
T3 PARTNERS II L.P.	10.9	0.2%	65,120.2	65,120.2		
THOMAS LEE L.P.	11.7	0.2%	(36.0)	(36.0)		
PERSI APOLLO MGMT LP	4.9	0.1%	(2.0)	(2.0)		
ZESIGER CAPITAL GROUP	21.0	0.3%	(32.7)	(32.7)		
TOTAL PRIVATE EQUITY	166.7	2.5%	(12.3)	(12.3)	(12.8)	(6.9)
REAL ESTATE						
LEND LEASE - PUBLIC R/E	188.8	2.9%	6.4	6.4	15.0	13.9
PRUDENTIAL	33.9	0.5%	10.0	10.0	8.4	9.9
TOTAL R/E MANAGERS	222.7	3.4%	7.0	7.0	13.9	13.7
BENCHMARK - NCREIF			7.6	7.6	8.2	9.8
TOTAL U.S. EQUITY	2,552.5	39.0%	(0.8)	(0.8)	(9.0)	(0.4)
BENCHMARK – Wilshire 5000			1.3	1.3	(10.6)	(1.3)
GLOBAL EQUITY						
BARING ASSET MANAGEMENT	185.5	2.8%	(1.0)	(1.0)	(19.2)	(5.4)
BRANDES INVST PARTNERS	295.8	4.5%	1.1	1.1	4.7	8.0
CAPITAL GUARDIAN¹	190.1	2.9%	2.1	2.1		
DEUTSCHE ASSET MGMT²	188.3	2.9%	(6.5)	(6.5)	(9.2)	(1.6)
ZESIGER CAPITAL GROUP	218.4	3.4%	23.9	23.9	(4.2)	11.3
TOTAL GLOBAL EQUITY	1,078.1	16.5%	3.3	3.3	(6.6)	3.3
TOTAL U.S./GLOBAL EQUITY	3,630.7	55.5%	0.4	0.4	(8.4)	0.4
BENCHMARK – Wilshire 5000			1.3	1.3	(10.6)	(1.3)

Investment Results (Base Plan only)

MANAGERS	TOTAL MKT VAL (MILLIONS)	% OF TOTAL FUND	Investment Performance for Periods Ending			
			FISCAL	1 YR	3 YRS *	5 YRS *
INTERNATIONAL EQUITY						
GENESIS INVESTMENTS	102.3	1.6%	11.9	11.9	1.2	4.8
SCHRODER EMG	84.9	1.3%	.2	2.2	(10.5)	(0.2)
MCM INTERNATIONAL	304.7	4.7%	(5.8)	(5.8)	(13.1)	(4.0)
ROWE PRICE-FLEMING	180.0	2.7%	(6.8)	(6.8)	(13.9)	(3.2)
SCHRODER CAPITAL	164.9	2.5%	(10.3)	(10.3)	(14.2)	(3.6)
TCW LONDON-INTL EQ	180.0	2.7%	(5.9)	(5.9)	(17.9)	(3.0)
TOTAL INTERNATIONAL EQUITY	1,016.8	15.5%	(4.7)	(4.7)	(13.1)	(2.4)
TOTAL INT'L EQUITY (HEDGED) ³	1,015.2	15.5%	(5.3)	(5.3)	(13.1)	(2.1)
BENCHMARK – EAFE Index Net			(6.5)	(6.5)	(13.5)	(4.0)
TOTAL EQUITY	4,645.9	71.0%	(0.9)	(0.9)	(9.3)	(0.1)
BENCHMARK – Wilshire 5000			1.3	1.3	(10.6)	(1.3)
U.S. FIXED INCOME						
DBF & CO FIXED	174.0	2.7%	7.3	7.3	9.3	7.2
DBF & CO-IDAHO MTGS	303.7	4.6%	13.1	13.1	12.3	9.3
STATE ST ADV-FX	455.4	6.9%	13.1	13.1	10.8	7.7
SSGA-TIPS	651.3	10.0%	16.9	16.9	13.1	
CLEARWATER-TBA ⁴	67.2	1.0%	5.0	5.0		
TOTAL U.S. FIXED INCOME	1,651.6	25.2%	14.0	14.0	11.9	8.7
GLOBAL FIXED INCOME						
BARING ASSET MANAGEMENT	241.1	3.7%	10.5	10.5	9.7	7.0
TOTAL GLOBAL FIXED INCOME	241.1	3.7%	7.6	7.6	7.8	6.1
TOTAL FIXED INCOME	1,892.7	28.9%	13.0	13.0	11.1	8.2
BENCHMARK – LB Aggregate			10.4	0.3	10.1	7.6
OTHER						
UNALLOCATED CASH	6.2	0.1%	8.3	8.3	7.1	6.7
COMBINED TOTAL	6,544.8	100.0%	3.7	3.7	(3.3)	2.7
BENCHMARK - Wilshire 5000			1.3	1.3	(10.6)	(1.3)
Add: Mutual Fund Holdings in 401(K) Plan						
Sick Leave Fixed Income Investments	52.6					
Sick Leave Equity Securities	86.4					
Investments Purchased	528.2					
Less:Interest and Dividends Receivable	(28.3)					
Investments Sold	(423.8)					
Total Pension Fund Investments						
Net of Receivables	\$ 6,783.6					

*Rates of Return are annualized

¹ Captial Guardian hired 5/02

² Formerly Scudder Stevens

³ Includes Pareto Partners currency overlay account

⁴ Clearwater hired 7/02

Prepared using a time-weighted rate of return in accordance with AIMR's Performance Presentation Standards.

Schedule of Investment Income for the Last Six Years

<u>Year</u>	<u>Interest</u>	<u>Dividends</u>	<u>Gains & Losses*</u>	<u>Total</u>
1998	\$106,511,929	\$53,007,558	\$ 687,506,474	\$ 847,025,961
1999	123,117,458	60,284,061	477,757,618	661,159,137
2000	153,008,941	71,583,903	629,687,058	854,279,902
2001	165,528,342	63,318,176	(669,263,570)	(440,417,052)
2002	120,190,309	68,412,290	(663,804,822)	(475,202,223)
2003	107,626,722	82,726,663	47,095,088	237,448,473

*Includes realized and unrealized gains and losses and other investment income

List of Largest Assets Held

Largest Bond Holdings (by Market Value) June 30, 2003

	<u>Par</u>	<u>Bonds</u>		<u>Market Value</u>
1	\$307,962,356	U.S. TREASURY INFLATION INDEX NT	4.250% 01/15/2010 DD 01/15/00	\$362,433,198
2	235,562,038	U.S. TREASURY INFLATION INDEX BD	3.875% 04/15/2029 DD 04/15/98	300,525,572
3	25,490,000	GERMANY FEDERAL REPUBLIC BDS	6.000% 4-JAN-2007 FUR1000	32,549,843
4	19,200,000	GERMANY (FEDERAL REPUBLIC) BD	4.500% 18-AUG-2006	23,371,219
5	22,234,000	COMMIT TO PUR FNMA SF MTG	4.000% 06/01/2033 DD 06/01/03	22,959,075
6	19,000,000	COMMIT TO PUR GNMA SF MTG	7.000% 08/15/2033 DD 08/01/03	20,080,625
7	19,000,000	COMMIT TO PUR FNMA SF MTG	6.500% 08/01/2033 DD 08/01/03	19,798,594
8	17,400,000	COMMIT TO PUR FNMA SF MTG	5.500% 08/01/2018 DD 08/01/03	18,066,094
9	11,765,000	FEDERAL HOME LN MTG DEBS	7.000% 07/15/2005 DD 07/10/00	13,074,692
10	16,350,000	GOVERNMENT OF CANADA	5.500% 01-JUN-2009	12,991,469

Largest Stock Holdings (by Market Value) June 30, 2003

	<u>Shares</u>	<u>Stock</u>	<u>Market Value</u>
1	1,973,451	PFIZER, INC.	\$ 67,393,352
2	1,115,100	WAL MART STORES, INC.	59,847,417
3	1,911,462	GENERAL ELEC CO.	54,820,730
4	1,993,600	MICROSOFT CORP.	51,056,096
5	1,034,408	CITIGROUP, INC.	44,272,662
6	1,139,442	EXXON MOBIL CORP.	40,917,362
7	710,288	AMERICAN INTL GROUP, INC.	39,193,692
8	539,500	FANNIE MAE	36,383,880
9	716,851	WELLS FARGO & CO.	36,129,290
10	426,800	IBM CORP.	35,211,000

A complete list of portfolio holdings is available upon request.

Schedules of Fees and Commissions for the Year Ended June 30, 2003

<u>Investment Fees</u>	<u>Average Assets Under Management</u>	<u>Fees</u>	<u>Basis Points</u>
Investment Manager Fees			
Equity Managers	\$3,797,338,589	\$11,952,896	31
Fixed Income Managers	1,834,524,183	1,252,572	7
Private Equity Managers	165,981,101	4,273,589	257
Real Estate Managers	206,903,016	2,951,074	143
Total Investment Manager Fees	\$6,004,746,889	20,430,131	34
Other Investment Service Fees			
Custodian/Record Keeping Fees		3,732,820	
Investment Consultant Fees		425,539	
Legal Fees		158,702	
Actuary/Audit Service Fees		423,385	
Total Investment Service Fees		4,740,445	8
Total Defined Benefit Plan Fees		\$25,170,576	42
Total Defined Contribution Plan Fees		90,705	
Total Fees		\$25,261,281	
<u>Broker Commissions</u>	<u>Base Commission</u>	<u>Total Shares</u>	<u>Commission per Share</u>
Merrill Lynch Pierce Fenner Smith, Inc, New York	\$252,987	7,330,779	0.03451
Goldman Sachs & Co, New York	234,600	17,689,879	0.01326
Citigroup Global Markets, Inc, New York	214,663	6,268,563	0.03424
Credit Suisse First Boston Corp, New York	172,208	4,709,921	0.03656
Morgan Stanley & Co, Inc, New York	152,122	9,127,204	0.01667
Lehman Bros, Inc, New York	139,090	3,645,963	0.03815
Deutsche Banc Alex Brown, Inc, New York	112,329	2,468,318	0.04551
Morgan J P Secs, Inc, New York	109,567	15,015,400	0.00730
Salomon Bros Intl Ltd, London	109,033	4,871,507	0.02238
Goldman Sachs Intl, London	108,346	71,597,195	0.00151
Bernstein Sanford C & Co, New York	104,375	2,797,811	0.03731
Citation Group, New York	94,278	2,049,634	0.04600
UBS Securities LLC, New York	93,313	108,741,787	0.00086
Merrill Lynch Intl (2L), London	86,962	8,475,813	0.01026
Jefferies & Co, Inc, New York	86,909	1,927,678	0.04508
Bear Stearns & Co, Inc, New York	85,704	1,098,405,249	0.00008
Wachovia Securities LLC, New York	83,878	2,492,164	0.03366
Morgan Stanley & Co Intl, London	77,405	3,488,692	0.02219
UBS Equities, London	64,097	2,123,021	0.03019
Unterberg Harris	61,407	2,873,100	0.02137
Merrill Lynch Intl London Equities	60,343	20,141,447	0.00300
Banc of America Secs LLC, Charlotte	57,961	1,203,600	0.04816
Bear Stearns Sec Corp, Brooklyn	57,783	1,930,088	0.02994
Citigroup Gbl Mkts/Salomon, New York	51,808	36,956,804	0.00140
Other Brokers Under \$50,000	1,746,173	355,814,820	0.00491
Total Broker Commissions	\$4,417,340	1,792,146,437	0.00246

A complete list of broker commissions is available from PERSI. PERSI does not require that investment managers use specific brokers.

STATEMENT OF INVESTMENT POLICY AND GUIDELINES

I. Introduction

The Board of the Public Employee Retirement System of Idaho ("the Board")("the System") hereby establishes its Statement of Investment Policy for the investment of the trust funds ("the Trust") in accord with Idaho Code Chapter 13, Title 59.

II. Statutory Requirements

The investment of the Trust will be in accord with all applicable laws of the state of Idaho.

A. Sole Interest of Beneficiaries

Investments will be solely in the interest of the participants and beneficiaries and for the exclusive purpose of providing benefits to the participants and their beneficiaries and defraying reasonable expenses of administration.

B. Prudent Investments

Investments will be made with the judgment and care under the circumstances then prevailing, which people of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable outcome as well as the probable safety of their capital. Investments will be diversified so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.

C. Fiduciary Duties

The Board and its agents, including staff, consultants, and investment managers, will discharge their duties with respect to the fund solely in the interest of the members and retired employees, and with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

III. Investment Goals

A. General Objective

1. Purpose

The purpose of the investment of Trust assets is to provide funds to meet the obligations of the Public Employee Retirement System of Idaho (PERSI) while incurring the appropriate amount of risk consistent with attaining that goal. The Board will invest the assets of the Trust so as to meet the projected obligations of the System, and will reduce risk through diversification of the assets of the Trust.

2. Considerations

In determining the returns needed by the system, the acceptable risk levels, and the allowable investments, the Board will consider:

- * the effect of particular investments on the total portfolio,
- * the purpose of the plan,
- * the diversification of the portfolio,
- * liquidity needs and the current return relative to the anticipated cash flow requirements, and
- * the projected return of the portfolio as it relates to the funding objectives of the plan.

B. Specific PERSI return and risk objectives

1. Investment Returns

(a) Actuarial Assumptions

In projecting obligations and the returns needed to meet those obligations, the Board will consider studies performed by actuaries hired by the Board. The actuary uses an investment return assumption of 8% before fees and expenses in balancing projected obligations, projected contributions, and projected returns on assets. Assuming all of the actuarial assumptions are accurate, this 8% return will suffice to: (1) assure the payment of statutorily required benefits, which includes a 1% Cost of Living Adjustment (COLA); and (2) maintain the reduction of the level of the unfunded liability (if any) on the scheduled amortization (one year at a time). The assumed 8% return will not be sufficient to fund either discretionary COLAs (2-6%), retroactive COLAs, accelerate the amortization of the unfunded liability, build a stabilization reserve, or allow for gain-sharing distributions.

(b) Inflation and Salary Assumptions

This 8% rate assumes an inflation rate of 4.25% and an annual general state salary growth of 5.25%. To the extent that either inflation or salary growth are higher or lower than these rates, then the investment returns needed will also be higher or lower than the assumed 8%, although not on a 1:1 ratio. Consequently, the investment returns actually needed by the system do not have a nominal rate which can be determined with precision in advance -- the 8% rate currently used by the actuary is only a general midpoint accurate over long (15-20) year periods and is only as accurate as are the inflation and salary assumptions.

(c) Relation to Funding Policy

As set out in the Board's funding policy, to the extent investment markets allow, it is the desire of the Board to provide discretionary COLAs, accelerate the amortization of any unfunded liability, and provide for gain-sharing. It is also the goal of the Board to maintain a reasonable amortization of any unfunded liability, and not to exceed the 25 year amortization period set by statute. Therefore, it is the goal of the Board to set an expected rate of return above the actuarially assumed return so that (1) discretionary COLAs will have a reasonable chance of being consistently funded and (2) the scheduled amortization of any unfunded liability is not unreasonably jeopardized. Returns above that amount will be used to build a stabilization reserve and to distribute to the System participants through gain-sharing.

(d) Periodic Specific Return Goals

Because of the inflation sensitivity of both the returns needed by the system and the size of annual COLAs, an exact target return (either real or nominal) cannot be set in advance. Nonetheless, under most reasonable actuarial assumptions, PERSI has a relatively stable real return goal of between 4.75% - 5.25% if consistent funding of discretionary COLAs and providing for gain sharing is included as an objective. Consequently, specific return goals for upcoming periods will be set out in the strategic asset allocations periodically adopted by the Board.

2. Investment Risk and Strategic Asset Allocations

(a) Diversification Among Asset Classes

In controlling the risk level that is appropriate for the Trust, the Board will diversify the assets of the Trust among various asset classes as the Board may from time to time adopt as appropriate asset classes. The specific asset classes to be used will be set in conjunction with the strategic asset allocation adopted from time to time by the Board.

(b) Review of Asset Classes and Asset Allocation

In setting strategic allocations, the Board will focus on assuring that the expected long-term returns will meet expected long-term obligations with the appropriate level of risk sufficient to meet those objectives. The Board will at least once every four years determine the appropriate asset classes for the investment of Trust assets and conduct asset allocation studies to help determine the long term strategic allocations among desired asset classes so as to meet long-term return objectives with the appropriate level of risk.

(c) Content of Strategic Asset Allocations

The strategic asset allocation will set out the asset classes to be used, the long-term strategic "normal" percentage of assets to be invested in each asset class, the short to intermediate term ranges that will be considered allowable temporary deviations from the strategic normal allocation, the investment risk and return expectations for each asset class, the numerical investment return and risk expected to be realized, and the relation of the expected investment return to the real and actuarially assumed investment return.

(d) Strategic Policies

In addition to asset allocation, the Board may from time to time adopt strategic policies. "Strategic policies" are actions by the Board to invest in asset types that have not been singled out as "asset classes" in the asset allocation process, to overweight particular sectors within an asset class, or to employ particular strategies in the investment of Trust assets. The purposes of these actions are either to increase the return above the expected return or to reduce risk. Examples of types of strategic policies include: a tilt towards small capitalization stocks in U.S. equity allocations; a tilt toward mortgage exposures in fixed income; hedging international currency exposures through a currency overlay program, and adding international emerging markets exposure in international equities.

IV. Investment Structure

A. Overall Structure

In making individual investment policy decisions, the Board will have as an overall goal a flexible, simplified structure with clear roles and accountability.

1. Board Ultimately Responsible

The Board is ultimately responsible for all investment activities. In exercising this responsibility, the Board will hire investment personnel and agents and delegate various investment functions to those personnel and agents. Where the Board does not delegate investment powers or duties, the Board will either satisfy itself that it is familiar with such matters, or will retain persons who are familiar with such matters to consult or assist the Board in the exercise of those responsibilities. Where the Board delegates a responsibility, it will be delegated to a person who is familiar with such matters, and the Board will monitor and review the actions of those to whom responsibilities are delegated.

2. General Roles and Responsibilities of Board and Agents

The Board will favor a structure that accommodates a citizen Board and a small staff. The Board and staff will concentrate their activities on:

- * strategic decisions, primarily concerning asset allocation and strategic policies;
- * adjusting the mix between passive and active managers depending on, among other considerations, near-term concerns regarding the U.S. and other capital markets; and
- * delegating and monitoring all other activities, including hiring and monitoring investment managers.

The Board will rely on outside agents, and primarily investment managers, to be responsible for non-strategic decisions. This responsibility includes those investment decisions with shorter-term consequences such as the best near-term securities, regions, asset types, or asset classes.

B. Direct (Non-Delegated) Responsibilities of the Board

1. Specific Responsibilities

The Board will be directly responsible for

- * Setting investment policy,
- * Determining the investment structure of the Trust,
- * Determining the asset classes to be utilized,
- * Setting the strategic asset allocation,
- * Determining strategic policies;
- * Hiring agents to implement the strategic asset allocation;
- * Hiring agents to implement strategic policies; and
- * Monitoring the compliance of those agents with the investment policies and strategic allocations set by the Board.

2. Delegation and Monitoring of Specific Investment Activities

The Board will normally delegate investment decisions concerning specific securities or assets, or the tactical allocations of assets among asset types, to outside agents. The Board will retain direct responsibility for the monitoring of the activities of those agents through periodic reports from its staff or consultants. The Board may choose to exercise direct investment responsibility if unusual market conditions or other circumstances so indicate.

C. Employees, Consultants, and Advisors to the Board

1. Investment Staff

(a) Duties of Chief Investment Officer and Other Staff

The Board will hire a Chief Investment Officer and such other staff as it considers appropriate who will be generally responsible for the oversight of the investment of Trust assets, and, as part of that overall responsibility, will: (1) supervise, monitor, and evaluate the performance of the investment managers hired by the Board to assure compliance with investment policy and individual guidelines; (2) assist the Board in developing and adjusting investment policy, including reviewing and modifying the asset allocation as conditions warrant; (3) research current market conditions, evaluate new products, and seek out new approaches to improve portfolio return, reduce risk, and reduce costs and fees; (4) work with the consultants, custodians, investment managers, and other agents in the performance of their assigned duties; and (5) assist the Board with education and other efforts to promote good decision making. Except in special circumstances, PERSI staff will not be responsible for the investment, purchase, or sale of specific assets.

(b) Allocation of New Net Contributions

The Chief Investment Officer shall allocate new net contributions to or withdraw net distributions from the system among investment managers in accordance with the strategic and tactical ranges established by the Board in the strategic asset allocation. The Chief Investment Officer shall report to the Board regularly on the allocation of new net contributions or the withdrawal of net distributions.

(c) Tactical Asset Allocation

With prior notice to the Board, the Chief Investment Officer may shift assets among managers (including between passive and active managers) as long as the asset allocation is maintained within the strategic ranges. If conditions do not permit giving prior Board notice, the Chief Investment Officer is authorized to move assets among investment managers within the strategic ranges established by the Board. If such action is taken, the Chief Investment Officer shall notify the Chairman of the Board as soon as is practical either that action is contemplated or has been taken, as circumstances warrant.

(d) Minimum Qualifications of Chief Investment Officer

The Chief Investment Officer shall at least: (a) have a graduate degree in finance, law, business administration, or a related field, or (b) be a Chartered Financial Analyst; or (c) have three or more years experience in the investment of trust assets.

2. Actuaries

The Board will hire an actuary to provide studies that will: (1) determine the long term obligations faced by the System through annual actuarial valuations, (2) set out return objectives or assumptions that will be sufficient to meet those obligations; and (3) provide reviews at least once every four years of the actuarial valuation process, including updating the projections and assumptions in light of the experience of the System. The Board will set its long-term return objectives after considering information provided by those studies.

3. Investment Consultants

The Board will hire a qualified independent consultant, whose relationship does not impose a conflict of interest with the Board or staff, to provide investment performance measurement at least quarterly with the report available to the Board within three months of the quarter end. The report will at least compare actual investment returns of the system -- in total, by each asset class, and for each managed portfolio -- with both the investment objectives of the system and a composite of returns of other institutional investors. The Board may hire other independent investment consultants as needed to assist the Board in the management of its investment activities, including, but not limited to: (1) performing asset allocation studies, and reviewing and recommending modifications of the asset allocation as conditions warrant; (2) assisting in monitoring the investment managers to assure they are in compliance with the investment policy and their individual guidelines; (3) performing manager evaluations and searches as may be necessary; and (4) assisting in the development and adjustment of investment policy. Except for consultants retained solely for purposes of performance measurement, consultants will be fiduciaries of the Trust.

D. Managers or Agents with Delegated Responsibilities

1. Custodian

(a) Responsibilities

The Board will hire custodians and other agents who will be fiduciaries of the Trust and who will assume full responsibility for the safekeeping and accounting of all assets held on behalf of the Trust. Among other duties as may be agreed to, the custodian will be responsible for: (a) the receipt, delivery, and safekeeping of securities; (b) the transfer, exchange, or redelivery of securities; (c) the claiming, receipt, and deposit of all dividend, interest, and other corporate actions due the Trust; (d) the daily sweep of all uninvested funds into a cash management account or accounts; and, (e) the provision of reports to PERSI upon agreed time intervals that will include all purchases and sales of securities, all dividend declarations on securities held by the Trust, a list of securities held by the Trust, and a cash statement of all transactions for the Trust account.

(b) Authorization of Collective Investment Trusts

Assets of the Trust may be invested in any collective investment trust, which at the time of the investment provides for the pooling of the assets of plans described in Section 401(a) of the Internal Revenue Code of 1986, as amended, and which is exempt from Federal income tax. Assets of the Trust may be commingled with assets of other trusts if invested in any collective investment trust authorized by this policy. The provisions of the trust agreement, as amended by the trustee thereof from time to time, of each collective investment trust in which Trust assets are invested are by this reference incorporated as a part of the trust estate comprising the Trust. The provisions of the collective investment trust will govern any investment of Trust assets in that trust.

2. Investment Managers

The Board will hire investment managers who will be fiduciaries of the Trust and who will be responsible for the investment of Trust assets in specific securities or assets within or among the asset classes.

(a) Minimum Qualifications

Investment managers shall be registered with the Securities and Exchange Commission (unless they are banks, insurance companies, or other category exempted from such registration requirements), have been in the business of investment management at least two years

(or the main personnel of the investment management firm have worked together in the business of investment management for at least two years), and, usually, have other United States pension fund assets under management.

(b) Guidelines

Investment Managers shall manage assets in accordance with additional guidelines established by contract and as may be added to or modified from time to time. The additional guidelines will contain minimum diversification requirements that must be followed by that manager. These guidelines will also set out the investment return expected to be achieved by that manager, and shall be linked to a benchmark that represents the passive index fund that would be used to replicate the manager's assignment.

(c) Responsibilities and Discretion

Subject to the restrictions set out in this policy or as may be set out in individual contracts or guidelines, an investment manager shall have full discretionary power to direct the investment, exchange, and liquidation of the assets entrusted to that manager. The manager shall place orders to buy and sell securities and, by notice to the custodian, cause the custodian to deliver and receive securities on behalf of the Trust.

(d) Corporate Governance

The Board, unless otherwise stated, will delegate the voting of proxies to the investment manager or custodian. The Board will adopt and from time to time modify a proxy voting policy. The staff will review the investment manager's policies governing the voting of proxies to assure consistency both with the policy of the Board and, to the extent feasible, among the various investment managers.

(e) Transactions and Brokerage

All securities transactions shall be executed by reputable broker/dealers or banks, and shall be on a best price and best execution basis.

3. Use of Passive and Active Managers

(a) Purpose and Use of Active Management

The Board recognizes that passive (index fund) investing has lower costs than active investing, with regard to both management fees and transaction costs. Further, the Board also recognizes that there is uncertainty concerning whether active investing can generally outperform passive investing, particularly in the large, liquid, and efficient portions of the capital markets. Also, the Board has great confidence that a passive investment of assets in an efficient asset allocation will likely meet long-term (20 year) obligations.

Contribution rates, COLAs, and the ability to provide for gain-sharing, however, are based on 1-5 year returns. The Board does have concern that over 1-5 year periods the ability consistently to fund COLAs and to keep contribution rates stable are in considerable jeopardy from two sources: (1) expected "normal" market fluctuations are such that annual returns will likely not meet hurdle rates approximately 40% of the time, with actual negative returns to be expected once every six years; and (2) that most of Trust assets under the strategic asset allocation will be invested in U.S. capital markets, and are thus vulnerable to poor U.S. returns.

One purpose of active management of Trust assets is to address these two concerns. Active managers will be hired for the purpose of providing greater stability of returns, and better returns, than would be achievable under purely passive management over rolling 3-5 year periods. Active managers will be responsible for timing of markets and the tactical allocation of assets among and within the capital markets (including between the U.S. and international markets).

In addition to providing extra returns, active managers will also be employed to smooth returns, provide higher long-term returns, provide protection in adverse markets, and to add exposure and additional diversification to the portfolio than that achievable solely through investment in passive indices representing the strategic asset allocation and strategic policies.

(b) Structure

In using outside managers, the Board will favor a structure using a reasonable number of managers with broad mandates and benchmarks. This preference will be implemented so as to achieve the following goals: to relieve the Board from making timing decisions in allocating assets among numerous specialized managers, to simplify the structure of the fund, and to reduce the number of active managers and thus expenses to the Trust.

Passive managers will be favored for the core, liquid, efficient markets (such as S&P 500 stocks and U.S. Government/Corporate bonds), and active managers will be favored for relatively inefficient markets (such as international emerging markets). Global managers will be used to provide flexibility in reacting to near-term concerns that may arise concerning any particular region or market, particularly the U.S. capital markets, and to provide an appropriate balance between efficient long-term asset allocations (which favor US assets) and near-term allocations (which have a greater preference for international assets) to meet the real (inflation adjusted) return needs of the System. Consequently, actual allocations to international equities in the overall portfolio from time to time may be above that in the strategic asset

allocation due to the activities of the global equity managers. The actual exposure to international equities will be maintained within the strategic range unless there is prior review by the Board before those ranges are exceeded.

(c) Balance between Passive and Active Management

The balance between active and passive management will be set from time to time with the following considerations in mind: concentration of active investment efforts where there is the most potential for excess returns, implementation of views concerning the state of the U.S. and international capital markets, and reduction of fees and other costs.

(d) Monitoring Standards

Active managers will be monitored under two standards: First, over rolling 3-5 year periods managers will be expected to exceed, after fees, the benchmark index that represents the passive alternative to the mandate given the manager, and to rank in the top half of the universe of managers that best fits that manager's mandate. Second, over shorter periods of time, managers will be expected to maintain key personnel, a consistent style, and investment capability. Passive managers will be monitored on their ability to track their benchmark index over both short (1 quarter to one year) and long periods (3 to 5 year). The Board may consider other information it considers relevant, including composite manager indices, in determining whether to retain or terminate managers.

V. Asset Class Policies

A. U.S. Equities

1. Objective

The overall objective of the U.S. equity asset class is to obtain, over time, a return after fees that equals or exceeds the returns of the Russell 3000 Index, both absolutely and on a risk-adjusted basis.

2. Allowable Investments

Managers may invest in stocks that do not pay dividends. Managers may invest in equity securities outside of the Russell 3000 Index. Managers may use derivative securities for purposes of enhancing liquidity, reducing transaction or other costs, or partially hedging an existing exposure in the portfolio.

3. Manager Styles

Managers for this asset class may include index funds, style managers (such as value and growth), "core" managers, and global managers. Global managers are managers who may invest in securities located anywhere in the world, both within and outside of the United States.

4. Benchmarks

The Russell 3000 index will be the benchmark for the passive index funds, core managers, and global managers. Other style or capitalization indices maintained by a qualified organization may be used as the benchmark for style managers. Active U.S. equity managers are expected to exceed, over rolling 3-5 year intervals, the applicable benchmark by 75 basis points annually after fees, and to rank in the top 50th percentile of active managers with similar mandates.

B. International Equities

1. Objective

The overall objective of the International Equity Asset Class is to obtain, over time, a return after fees that equals or exceeds the returns of the Morgan Stanley Capital International Europe, Australia, and Far East (MSCI EAFE) Index (unhedged), or the FT Actuaries World ex U.S. Index, both absolutely and on a risk-adjusted basis.

2. Allowable Investments

Managers may invest in stocks that do not pay dividends. Managers may invest in American Depositary Receipts or American Depositary Shares. Managers may invest in equity securities of companies or in countries that are not included in the indices. Managers may use derivative securities for purposes of enhancing liquidity, reducing transaction or other costs, or partially hedging an existing exposure in the portfolio. Managers may, at their discretion, hedge the currency exposure of all or part of their portfolios. Managers may not overhedge their portfolio, although proxy hedging for purposes of liquidity and cost savings is allowed.

3. Manager Styles

Managers for this asset class may include index funds, general international managers, regional or specialized managers (such as emerging markets), and global managers. The Board may from time to time hire a currency overlay manager to hedge the currency exposure in those portfolios where managers do not actively or normally consider hedging their exposure.

4. Benchmarks

The MSCI EAFE Index (unhedged), or the FT Actuaries World ex U.S. (unhedged) will be the benchmark for the passive index funds, general international managers, and global managers. Regional or specialized indices (unhedged) maintained by a qualified organization may be used as the benchmark for other active managers. Active international equity managers are expected to exceed, over rolling 3-5 year intervals, the applicable benchmark by 75 basis points annually after fees, and to rank in the top 50th percentile of active managers with similar mandates.

C. Fixed Income

1. Objectives

The overall objective of the Fixed Income Asset Class is to obtain, over time, a return after fees that equals or exceeds the returns of the Lehman Brothers Aggregate Bond Index (Aggregate Bond Index) both absolutely and on a risk-adjusted basis.

The Fixed Income Asset Class shall consist of investments in mortgages and in both dollar and non-dollar fixed income securities. Mortgages shall consist of investments in mortgage backed securities, and direct ownership of commercial mortgages through the Idaho Commercial Mortgage Program.

The objective of the non-mortgage fixed income securities is to obtain, over time, a return after fees that equals or exceeds the returns of the Lehman Brothers Government/Credit Bond Index (Government/Credit Bond Index) on a risk-adjusted basis. The overall objective of the mortgage securities is to obtain, over time, a return after fees that equals or exceeds the returns of the Lehman Brothers Mortgage Index (Mortgage Index) on a risk-adjusted basis.

2. Allowable Investments

Managers may invest in debt securities that do not pay interest. Active managers may invest in securities in companies or countries not included in the indices. Managers may use derivative securities for purposes of enhancing liquidity, reducing transaction or other costs, or partially hedging an existing exposure in the portfolio. Fixed income managers may, at their discretion and to the extent allowed by their contracts and guidelines, use currency forward or futures markets as may be considered appropriate to implement fixed income strategies.

3. Manager Styles

Managers in this asset class may include index funds, domestic bond managers, specialized managers, and global managers.

4. Benchmarks

The Government/Corporate Index or Aggregate Index will be the benchmark for all non-mortgage fixed income managers. The Mortgage Index will be the benchmark for all mortgage managers. The Aggregate Index will be the benchmark for the asset class. Active fixed income managers are expected to exceed, over rolling 3-5 year intervals, the applicable benchmark by 25 basis points annually after fees, and to rank in the top 50th percentile of active managers with similar mandates.

D. Real Estate

1. Objectives

Private equity real estate investments will be considered part of the U.S. Equity asset class. The overall objective of private equity real estate investments is to attain a 6% real rate of return overall, over a long-term holding period, as long as this objective is consistent with maintaining the safety of principal. The 6% real rate of return includes both income and appreciation, is net of investment management fees, and is net of inflation as is measured annually by the Consumer Price Index. Over a short term basis, the objective is to earn a nominal minimum income yield of 6% on each individual investment, or inflation plus 3%, whichever is greater.

2. Allowable Investments

Allowable private equity real estate investments will include open-end and closed-end commingled real estate funds, publicly traded real estate investment trusts, and direct real estate investments originated by selected real estate advisors who structure similar investments with other institutional investors. The real estate asset sector will not include solely debt obligations; in particular, straight mortgage interests will be considered part of the fixed income asset class.

3. Need for Income Component of Return

Upon acquisition, each real estate investment must have as a goal the expectation of production of annual income measured by realized return and not capital appreciation. Thus, a significant proportion of income producing properties and not purely development properties should be the objective of any commingled fund acquired.

4. Protection of the Trust

Investment vehicles should be chosen that will protect the Trust, including provision for investments that do not contain debt or liability with recourse beyond the Trust commitment to the related business entity, provision for inspection and evaluation of environmental hazards prior to the purchase of any property, and the provision of insurance coverage to protect against environmental and natural hazards.

5. Reporting

A comprehensive reporting system for individual investments or funds will be maintained so that poorly performing investments and deficiencies in portfolio diversification can be identified and active portfolio management facilitated. Investment managers shall be required to present opinions of fair market value as part of quarterly and annual reporting requirements, and audited financial statements shall be required at least annually for each investment entity.

E. Alternative Investments

1. Definition and Board Approval

The Board may from time to time authorize the investment of Trust assets in entities or structures that do not fit the asset descriptions listed above. Examples of such investments are venture capital partnerships, private equity, leveraged buy-out funds, private debt, and direct ownership of individual assets such as oil and gas partnerships. These investments shall only be entered into with the specific approval by the Board or a subcommittee given specific delegation by the Board of each investment vehicle, or investment manager.

2. Objectives and Benchmarks

If the alternative investment is an equity investment, the objective for the investment will be to exceed, over time and after fees, the return achieved by the Russell 2000 Index times 1.35. If the alternative investment is a debt investment, then the objective will be to exceed, over time and after fees, the returns achieved by the Lehman Brothers Government/Credit Index plus 3%. It is recognized that these investments will experience greater volatility than the comparable publicly traded securities and indices.

3. Asset Allocation

For purposes of asset allocation, alternative equity investments will be treated as part of the U.S. equity asset class, and alternative debt investments will be treated as part of the fixed income asset class.

STRATEGIC ASSET ALLOCATION

Asset Class	Expected Return	Expected Risk	Strategic Normal	Strategic Ranges	Allocation Year Ended June 30, 2003
U.S. Equity	10.4%	19%	54%	44% - 57%	45%
International Equity	11.0%	22%	15%	12% - 25%	23%
Total Equities			69%	66% - 75%	68%
Fixed Income	6.6%	7%	30%	27% - 33%	28%
Cash	4.0%	1%	1%	0% - 5%	4%

Total Fund	Expected Return	Expected Inflation	Expected Real Return	Expected Risk
Actuary	8.00%	4.25%	3.75%	n/a
Portfolio	9.30%	3.75%	5.55%	13.50%